

U.S. TRADE POLICY TOWARD SOUTHEAST ASIA AND OCEANIA

HEARING BEFORE THE SUBCOMMITTEE ON ASIA AND THE PACIFIC OF THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED EIGHTH CONGRESS

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U.S. TRADE POLICY TOWARD SOUTHEAST ASIA AND OCEANIA

WEDNESDAY, JUNE 25, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ASIA AND THE PACIFIC,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:20 a.m. in Room 2172, Rayburn House Office Building, Hon. James A. Leach [Chairman of the Subcommittee] presiding.

Mr. LEACH. The Committee will come to order. On behalf of the Subcommittee, I would like to welcome our distinguished Administration witnesses to the hearing. Appearing before us today are the honorable James A. Kelly, Assistant Secretary of State for East Asia and the Pacific; Mr. Ralph F. Ives, Assistant U.S. Trade Representative for Asia-Pacific and APEC Affairs.

I particularly would like to express our appreciation to Assistant Secretary Kelly for his appearance today. As my colleagues may know, he has only recently returned from the Post-Ministerial Conference of the Association of Southeast Asian Nations in Phnom Penh, Cambodia.

The subject of the hearing today is the United States trade and commercial policy toward Southeast Asia and Oceania. Here, a bit of perspective is in order. Just a decade ago the Asian miracle was described as one of the economic wonders of the world. American foreign policy was focused like never before on big emerging markets, particularly the East Asian tigers. More broadly, the 21st century appeared to be all about geoeconomics instead of geopolitics; that is, the dominant interplay of international finance, trade and economics on politics rather than politics dictating economics.

As we all understand, however, the global financial crisis of 1997 and 1998, problems of inequality and corruption in the region, and the terrorist attacks of September 11th combined to shatter economic optimism. Subjects like counterterrorism and global security, and not international economic policy, now dominate our political lexicon.

But rumors of the demise of American commercial diplomacy in Asia and elsewhere are greatly exaggerated. Indeed, with remarkably little publicity, the pace of American economic engagement with the ASEAN countries has actually increased since the go-go days of the early 1990s. The reasons for America's abiding interest are plain. The region, which includes leading moderate Islamic countries, is playing a critical role in the global campaign against terrorism. In addition, Southeast Asia remains a vast market for

United States exports, more than twice as large as our exports to China and our fifth largest market worldwide. Indeed, from a Mid-western agricultural perspective, no region of the world holds greater promise for United States food and agricultural trade than Asia.

President Bush will demonstrate America's commitment to the ASEAN region when he visits Thailand for the APEC meeting in October. I am optimistic that Congress will do the same and approve the United States-Singapore Free Trade Agreement, the first such American commitment in Asia later this year. Moreover, under the Enterprise for ASEAN Initiative, United States economic ties to the region could be expanded further with negotiation of additional United States free trade agreements with Thailand, the Philippines and others.

Likewise Australia is one of the United States' closest allies with whom we share a history of common sacrifice, common values, as well as robust and expanding economic relations. Hence, it is only fitting that Canberra and Washington should sign the credible free trade agreement before the year is out.

New Zealand and the United States have also been strong partners and good friends for over a century. Our two countries share a strong commitment to democratic values, advancing human rights and protecting the environment. New Zealand is only one of two countries, the other being Australia, that has fought side by side with the United States in every major war in the last century. New Zealand committed forces to the campaign in Afghanistan, and the government recently announced additional contributions to Operation Enduring Freedom and reconstruction in Iraq. In this context I had hoped that the Administration, despite other differences with New Zealand, would give sympathetic consideration to early negotiation of the free trade agreement. Comprehensive free trade between the United States and Australia and New Zealand would set a powerful example and act as a catalyst for further ambitious liberalization in both APEC and the WTO.

Finally, I would like to give notice to the Administration of growing concerns in Congress on an issue not a subject of this hearing, but which is a subject of sharply rising angst among manufacturers around the country: The growing trade deficit with China. Last year merchandise imports from China were 125 billion, while exports were 22 billion, resulting in a trade deficit of \$103 billion, by far the largest of any country in the world.

Reasonably balanced and mutually beneficial trade is a cornerstone of good Sino-American relations. Likewise, unbalanced trade, particularly in periods of economic weakness at home, contains a smoldering prospect of diplomatic rupture. It is time the Administration make the fundamental point that normal trade relations are all about reciprocity. It is self-evident that an almost \$2 billion-a-week trade deficit is politically and economically unsustainable. This Subcommittee and the Congressional Executive Commission on China, which I Co-Chair, will be holding a hearing on this subject later this year with particular emphasis placed on the issue of currency relationships. A free and balanced flow of trade should be marked by free markets in currency where countries with trade

surpluses should find their currencies appreciate in value and vice versa.

In any regard, we appreciate your attendance at today's hearing and look forward to your testimony.

[The prepared statement of Mr. Leach follows:]

PREPARED STATEMENT OF THE HONORABLE JAMES A. LEACH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA, AND CHAIRMAN, SUBCOMMITTEE ON ASIA AND THE PACIFIC

On behalf of the Subcommittee I would like to welcome our distinguished Administration witnesses to today's hearing. Appearing before us today are the Honorable James A. Kelly, Assistant Secretary of State for East Asia and the Pacific, and Mr. Ralph F. Ives, Assistant U.S. Trade Representative for Asia-Pacific and APEC Affairs. I particularly would like to express our appreciation to Assistant Secretary Kelly for his appearance today. As my colleagues may know, he has recently returned from the post-Ministerial Conference of the Association of Southeast Asian Nations (ASEAN) in Phnom Penh, Cambodia.

The subject of our hearing this morning is U.S. trade and commercial policy toward Southeast Asia and Oceania. Here, a little perspective is in order. Just a decade ago, the "Asian miracle" was described as one of the economic wonders of the world. American foreign policy was focused like never before on "big emerging markets," particularly the East Asian tigers. More broadly, the 21st century appeared to be all about geo-economics instead of geopolitics, that is, the dominant interplay of international finance, trade and economics on politics rather than politics dictating economics.

As we all understand, however, the global financial crisis of 1997-1998, problems of inequality and corruption in the region, and the terrorist attacks of September 11 combined to shatter the economic optimism. Subjects like counter-terrorism and global security, and not international economic policy, now dominate our political lexicon.

Rumors of the demise of American commercial diplomacy in Asia and elsewhere, however, are greatly exaggerated. Indeed, with remarkably little publicity, the pace of American economic engagement with ASEAN has actually increased since the go-go days of the early 1990s. The reasons for America's abiding interest are plain. The region, which includes leading moderate Islamic countries, is playing a critical role in the global campaign against terrorism. In addition, Southeast Asia remains a vast market for U.S. exports, more than twice as large as our exports to China and our fifth largest market worldwide. Indeed, from a Midwestern agricultural perspective, no region in the world holds out greater promise for U.S. food and agricultural trade than Asia.

President Bush will demonstrate America's commitment to the ASEAN region when he visits Thailand for the APEC meeting this October, and I am optimistic that Congress will do the same and approve the U.S.-Singapore Free Trade Agreement—the first such American commitment in Asia—later this year. Moreover, under the Enterprise for ASEAN Initiative, U.S. economic ties to the region could be expanded further with the negotiation of additional U.S. free trade agreements with Thailand, the Philippines, and others.

Likewise, Australia is one of the United States' closest allies, with whom we share a history of common sacrifice, common values, as well as robust and expanding economic relations. Hence it is altogether fitting that Canberra and Washington should set the goal of completing and signing a credible free trade agreement before the year is out.

New Zealand and the United States have also been strong partners and good friends for over a century. Our two countries share a strong commitment to democratic values, advancing human rights and protecting the environment. New Zealand is one of only two countries—the other being Australia—that has fought side by side with the U.S. in every major war of the last century. New Zealand committed forces to the campaign in Afghanistan, and the government recently announced additional contributions to Operation Enduring Freedom and reconstruction in Iraq. In this context, I would hope that despite certain differences that exist, the Administration would give sympathetic consideration to early negotiation of an FTA with New Zealand. Comprehensive free trade between the United States, Australia and New Zealand would set a powerful example and act as a catalyst for further ambitious liberalization in both APEC and the WTO.

Finally, I would like to give notice to the Administration of growing concerns in Congress on an issue not a subject of this hearing, but which is the subject of sharp-

ly rising angst among manufacturers throughout the country: the growing trade deficit with China. Last year merchandise imports from China were \$125 billion, while exports to China were \$22 billion, resulting in a trade deficit of \$103 billion—by far the largest with any country in the world.

Reasonably balanced and mutually beneficial trade is a cornerstone of good Sino-American relations. Likewise, unbalanced trade—particularly in periods of economic weakness—contains the smoldering prospect of diplomatic rupture. It is time the Administration make the fundamental point that normal trade relations are all about reciprocity. It is self evident that an almost two billion dollar a week trade deficit is politically and economically unsustainable. This Subcommittee and the Congressional Executive Commission on China, which I co-chair, will be holding a hearing on the subject later this year, with particular emphasis placed on the issue of currency relationships. A free and balanced flow of trade should be marked by free markets in currency where countries with trade surpluses should find their currencies appreciate in value and vice-versa.

In any regard, we appreciate your attendance at today's hearing and look forward to your testimony.

Mr. LEACH. Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman, for calling this hearing this morning. United States trade and commercial policies toward the Asia-Pacific region is obviously just as critical and, in my opinion, are just as important as that of the formulation and implementation of our Nation's foreign policies toward this important region of the world. According to CRS reports, just within the last 5-year period, our trade with the Asia-Pacific region, at least United States imports from the Asia-Pacific region, was well over \$3.6 trillion. Last year alone United States imports from the Asia-Pacific region was \$765 billion. United States exports to the Asia-Pacific region is \$2.2 trillion, with about \$448 billion exports to this area of the world.

Without question, our trade policy, it seems to me, is synonymous with our foreign policy. The same can also be said of the connection between our foreign policy, and that is inseparable with our national security interests. I suppose, Mr. Chairman, one might also say our foreign policy is a combination of both our trade policies as well as that of our strategic and national security interests.

Our trade policies toward the Asia-Pacific region appears to exemplify the involvement of two other critical factors in the decision-making process: A definition of our foreign policy and determining whether our national security is at risk, and the subsequent decisions that follow against nations or organizations that intend to do us harm.

In recent years there have been movements to establish multilateral trade agreements among the different regions of the world. Two years ago the Asian countries that make up the ASEAN, which is 10 countries, have agreed to negotiate a free trade agreement with China by the year 2013. These same countries are also planning to integrate their economies with China and Japan and South Korea.

Last month the Administration signed off on the free trade agreement with Singapore. The Administration is now negotiating a free trade agreement with Australia, but seemingly is not as enthusiastic to do the same with New Zealand, supposedly because of New Zealand's nonsupport of our United States efforts to wage war against Iraq and New Zealand's long-standing policy of no United States nuclear warships in its waters.

I do happen to agree with you, Mr. Chairman, that we do have a tremendous amount of goodwill in the very close economic and trade relationship with New Zealand, and there is no reason why we should not initiate negotiations in conducting the free trade agreement with New Zealand as well. I would be curious to find out where we are in our involvement with the Asia-Pacific economic cooperation. We also need to know what the Administration's procedure policies are, when, why and how countries or regions are selected for free trade agreement status. Do we do it randomly, or by alphabetical order, or depending on the extent of our trade and commercial ties with certain countries?

It should be noted with interest that the Administration supported the idea of allowing Andean nations to support duty-free canned tuna so as to encourage countries like Ecuador not to grow coca plants and as a way to fight drug trafficking that comes into our country at the expense of destroying the entire United States tuna industry. The Philippines and Indonesia are now requesting the same trade privileges: Free trade export of their canned tuna to the United States duty free, but with a different twist. Philippines are saying, we are fighting terrorism, too, and I think we should be given the same privileges as fighting drug trafficking that comes into your country. Well, I would be very curious to find out where we are with that policy decision-making in terms of the Administration's current standing on this.

Mr. Chairman, I look forward to hearing from our witnesses this morning, and it is always a great pleasure to welcome the Assistant Secretary for East Asian Affairs, Secretary Jim Kelly. I also want to welcome Mr. Ralph Ives, Assistant U.S. Trade Rep for Asia-Pacific and APEC. Look forward to hearing from the witnesses. Thank you.

Mr. LEACH. Mr. Blumenauer, did you wish to make an opening statement?

Mr. BLUMENAUER. Thank you, Mr. Chairman.

I look forward to the testimony. In reviewing it previously, it didn't appear to me that there was much of a focus as it relates to the environmental challenges of this region, which I think bear directly on a lot of the work that some of us who are interested in the trade linkages and the stability of these regions. And I would hope that if what I was given as an advance copy didn't have reference to the environment, that there would be an opportunity to come back and make that part of the record, because it seems to me as we look at this critical area, we have great environmental stress that is impacting the region and is also making a difference in terms of how we are going to conduct commerce with these countries, of particular interest to me as we look at the Singaporean Free Trade Agreement.

But I look forward to the testimony, Mr. Chairman. I appreciate an opportunity to have this discussion today.

Mr. LEACH. Thank you. Mr. Brown.

Mr. BROWN. I thank the Chairman very much, and thank him for holding this hearing today. To put it mildly, this Congress has a rather checkered history on trade issues. Where the Jordan Free Trade Agreement, passed a couple of years ago, represented a step forward in trade policy, Singapore and Chile represent a devolution

to the failed policies of the North American Free Trade Agreement. Labor provisions in the Singapore FTA are completely and intentionally unenforceable. Violations of core labor standards cannot be taken to dispute resolution. The commitment to enforce domestic labor laws is subject to remedies weaker than those available for commercial disputes. This violates the negotiating objectives of fast track that equivalent remedies should exist for all parts of an agreement. Further, the enforce your own laws standard allows countries the opportunity to rewrite and weaken their labor laws in order to attract investment.

The Singapore agreement also allows for the creation of sweatshops in the islands of Bintam and Batam through a program called Integrated Sources Initiative. This allows electronic components from these islands to be counted as Singaporean under the agreement. Yet the islands are not subject to the labor and environmental provisions of the agreement. That gaping loophole happens to benefit companies looking to exploit workers.

In a disingenuous manner, proponents of ISI argue that it will prevent terrorism. I guess that any policy that this Administration advocates is sold under the label "prevents terrorism," and typically Congress responds affirmatively.

The debate is not a choice on all of these trade agreements that the Chairman mentioned and other trade agreements. The debate is not a choice between free trade and no trade. The debate should be framed around priorities adversely affected by irresponsible trade policy, labor protections, the environment, the economy. This not a debate on whether one side supports trade and one side doesn't. The Jordan Trade Agreement was a good—Jordan agreement was a good trade agreement. Singapore falls short. The President mentioned that—Chairman Leach mentioned that China, we have a trade deficit with China of \$103 billion in 2002. Only less than a decade and a half ago, our trade deficit with China was \$100 million. It went from 100 million to 100 billion in about 13 years—12 or 13 years. That is probably an example of failed trade policy.

Mr. Chairman, as we consider future decisions in our trade policies with Singapore and Chile and the rest of the world, we should lend an ear to a talisman that Mahatma Ghandi once told his followers. He said, whenever you are in doubt, or when the self becomes too much for you, apply the following test: Recall the face of the poorest and the weakest man whom you may have seen and ask yourself if the step that you contemplate is going to be of any use to him.

Call me a skeptic, but I have a feeling our corporate Commanders-in-Chief and our U.S. Trade Representative negotiators are all too often recalling the faces of the wealthiest men they have seen and contemplating how they can exploit poor countries in ways that will be of use to themselves. I thank the Chairman.

Mr. LEACH. Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman. I will be very brief.

We look forward to hearing from you, Mr. Secretary, if we all quit talking. As I say, I will keep it extremely brief.

I just wanted to make one observation. I consider myself a free trader, that I know—I think other countries do have to be aware

that there is some price to be paid for policies or comments that are made, whether it is Schroeder in Germany or whether it is Chirac in France or whether it is the Prime Minister of New Zealand. You know, at a time when we were trying to put together a coalition to free the Iraqi people, there were clearly some comments made and some policies which were particularly unhelpful at that time. And I would be interested to hear your comments, and assume that it would either come in the questioning or perhaps in your opening statement, relative to New Zealand. And I know that they had originally—I believe the thought was they may piggyback on a free trade agreement with Australia, and perhaps in light of Iraq that might be being relooked at by the Administration.

Again, we welcome your remarks. Thank you.

Mr. LEACH. Thank you, Mr. Chabot.

Before turning to our witnesses, let me by way of background make a point about introduction in terms of biography. Secretary Kelly prior served in the National Security Council of President Reagan. He is a graduate of the United States Naval Academy and holds an M.B.A. From Harvard.

Mr. Ives has been at the United States Trade Representative Office since 1988, and prior to that was with the Department of Commerce. He holds B.S. Degrees from Maryland and two master's degrees, one from American University and one from George Washington University.

The point I would simply make is that we have two professionals steeped in public service and steeped in areas of Asian expertise, and this is very much appreciated by the Committee.

Secretary Kelly, if you would commence. And both of your statements, full statements, will, without objection, be placed in the record, and you may proceed in any manner you see fit.

Mr. Kelly.

STATEMENT OF THE HONORABLE JAMES A. KELLY, ASSISTANT SECRETARY, BUREAU OF EAST ASIA AND PACIFIC AFFAIRS

Mr. KELLY. Thank you very much, Mr. Chairman and Members. I want to thank the Members of the Subcommittee on East Asia and the Pacific for inviting me and Mr. Ives to discuss trade and commercial policy priorities in Southeast Asia and Oceania.

Looking back, the region has seen a remarkable transformation. Just a few decades ago the Southeast Asian region in particular suffered from cross-border conflicts and struggled with domestic instability and poverty. Today the region has few cross-border conflicts, much more open societies, with some serious exceptions, and democratic institutions, and boasts some of the world's more dynamic economies.

Thirty years ago, for example, Malaysia's per capita GDP exceeded Korea's, and today Korea's per capita GDP is more than double Malaysia's. Hong Kong and Singapore, which earned little more than a \$1,000 per capita in 1971, today exceed well over \$21,000 in per capita GDP. These and most of the economies of Southeast Asia have made great strides in overcoming inequality and developing a solid middle class.

Even amid deep poverty, as I observed in my visit to Cambodia last week, even there, I think, there is some beginnings of a middle class taking shape. This is, I think, a very important way to look at developing economies. Thirty or forty years ago there was a veneer of a few rich people on top of a population that was predominantly dirt poor. There are still many people in East Asia who are very poor, although that number is considerably diminished in places like Hong Kong and Singapore. But many more are able to make choices and travel and visit.

The growth of the economies has been very, very significant and very, very large. And the U.S., in our trade and economic relationships, has had something to do with this growth. All of the economies, though, are still struggling to overcome the setbacks of the Asian financial crisis of 1997 and 1998 and, more recently, economic fallout from the SARS epidemic.

The Asian financial crisis revealed serious structural weaknesses in the region's financial and corporate sectors. Some Asian countries, such as Korea, have taken important steps to resolve the twin problems of nonperforming loans and nonperforming assets and have been amply rewarded. Other countries have moved beyond the pegged exchange rate that has exacerbated the crisis. But many economies of Southeast Asia continue to wrestle with bank and corporate reform, leaving structural problems that are seriously impeding their growth even now.

The focus you have put on Southeast Asia is well placed, for the region is important to the United States politically and economically. The region is home to some of the world's fastest-growing economies and a number of significant trading partners of the U.S. Last year the United States sold to this market of a half billion people \$57 billion in goods and services, almost twice as much as to Hong Kong and China combined. Large U.S. investment totaling \$53 billion in the ASEAN countries has both strengthened our economic ties with the region and expanded opportunities for American business.

These economic ties are part of deep and long-standing alliances and friendships in the region that are as critical to our security as they are to our prosperity. Virtually every country in the region has stood beside us in the war on terror. The Bali bombing of last October drove home to Asia that combating terror is a global challenge and not one left for other parts of the world.

The United States' number one economic objective in Southeast Asia is to promote growth through expanded trade and investment and to accelerate structural reform. The region has seen significant progress in lowering tariffs over the past decade and a half. All but one of our trading partners in the region currently have average tariff rates of below 10 percent.

We are continuing to push for even greater liberalization through the cutting-edge free trade agreements concluded with Singapore; under negotiation with Australia; as well as trade and investment framework agreements, or TIFAs, with Indonesia, the Philippines, Thailand and Brunei; and the Enterprise for ASEAN Initiative (EAI) announced by President Bush last October at Los Cabos. The EAI offers the prospect of bilateral FTAs with individual ASEAN countries that are committed to the economic reforms and openness

that are inherent in an FTA with the United States. The ultimate goal of this East Asian Enterprise for ASEAN Initiative is a network of bilateral ASEAN free trade agreements.

On a smaller scale, we have bilateral trade agreements (BTA) with Vietnam and Laos although the Laos BTA requires congressional approval for normal trade relations (NTR) before the BTA can come into force. The BTA with Vietnam has been particularly successful, with trade from that country doubling since the BTA entered into force in December 2001. And we will have close consultations with the region to help ensure a successful conclusion of the Doha Development Agenda.

Additionally, we emphasize continued engagement at the multilateral level through Asia Pacific Economic Cooperation (APEC). APEC remains a powerful vehicle for liberalization because its members have committed themselves to free and open trade and investment in the Asia-Pacific no later than the year 2010 for industrialized economies, and by 2020 for developing economies.

At the APEC leaders meeting coming up in October 2003 in Bangkok, we expect President Bush to attend and to introduce new initiatives related to countering terror while facilitating trade and investment. We are also pursuing agreements in APEC designed to further liberalize air transportation, protect copyrights, and help APEC members implement the structural reform that is the key to continued economic growth.

In the area of investment, even amidst an uneven recovery from the financial crisis, we have watched this part of the world attract significant amounts of foreign capital. However, recent years have seen a significant fall in foreign investment in part due to problems related to weak legal institutions. Between 1997 and 2001, annual flows of foreign direct investment in ASEAN fell by more than half, from investment of \$30 billion in 1997 to only \$13 billion in 2001. And, there are some horror stories. One of them is the Asia Pulp and Paper case, a good example of why Foreign Direct Investment (FDI) is declining. This is a firm based in Indonesia and Singapore that has defaulted on some \$14 billion of debt, almost half of it owned by its four Indonesian units, and there is significant American investment in that figure. We are continuing to work with Ex-Im Bank and the credit agencies to build corporate transparency and judicial accountability in Indonesia, which has been sorely lacking in this case. And when things like these are improved, they are going to help attract foreign investment.

Now, before ending these prepared remarks, I want to touch on China and on Burma. China's economic power has risen and made a significant new presence in Southeast Asia. There is a remarkable chart in my prepared testimony that shows over a 600 percent increase in trade with the countries of Southeast Asia.

Mr. Brown pointed out the very significant increases in the trade deficit with the U.S. That is certainly true. It has also been matched by China's trade elsewhere and very much signifies China's arrival as a very significant economic player, and it means that its accession to the WTO is even more important than we had anticipated.

I will go beyond that and respond to further questions if necessary, but I cannot close the testimony without mentioning the de-

plorable situation in Burma and our Administration's response. We are appalled at the crackdown that was engineered by the ruling junta, the State Peace and Development Council, on those who stand for freedom. On May 30th, government-affiliated thugs launched a premeditated attack of Daw Aung San Suu Kyi and her supporters. The attack left many injured and some of them dead. The SPDC claim that the caravan provoked the incident is nonsense, in our view.

We strongly condemn the continued detention of Aung San Suu Kyi and supposed protective custody, and we are especially appalled at reports that she has been detained in the notorious Insein prison without access to visitors. We again call for immediate release and that of the leadership of her party, the National League for Democracy, and we call for the formulation of a concrete plan to restore democracy in Burma.

As Secretary Powell announced previously, we are increasing the pressure on the SPDC in response to their rejection of reform. We support the goals and intent of the bills introduced here and in the Senate and are working on an appropriate set of new steps. We support efforts to restrict imports from Burma as long as the President is given an appropriately flexible waiver authority. Meanwhile, the State Department has acted to expand our visa restrictions on Burmese officials. We are preparing an Executive Order for the President to freeze the assets of SPDC members and ban remittances to Burma from the United States. We are supportive of legislation that would place restrictions on travel-related transactions. We continue to coordinate with counterparts in the international community. Member states of the EU have already agreed to toughen their common position against the SPDC. Canada is looking at visa restrictions. And when Secretary Powell was in Phnom Penh last week, he pressed the member states of ASEAN to reject the unacceptable behavior of their neighbor, and we welcome their statement that calls for the release of Aung San Suu Kyi.

In the 36 years of the Association of Southeast Asian Nations, there has never been before last week any criticism of one of their members, and that criticism, although certainly mild by what we would judge would be necessary, did take place, and we count that as significant.

Thank you, Mr. Chairman.

Mr. LEACH. Thank you, Mr. Kelly.

[The prepared statement of Mr. Kelly follows:]

PREPARED STATEMENT OF THE HONORABLE JAMES A. KELLY, ASSISTANT SECRETARY,
BUREAU OF EAST ASIA AND PACIFIC AFFAIRS

Mr. Chairman, I would like to take this opportunity to thank you and the members of the Subcommittee on Asia and the Pacific, for inviting me to discuss trade and commercial policy priorities in Southeast Asia and Oceania.

Looking back, this region has seen a remarkable transformation. Just a few decades ago, it suffered from cross-border conflicts and struggled with domestic instability and poverty. Today the region has virtually no cross-border conflicts, has more open societies and democratic institutions, and boasts some of the most dynamic economies in the world. Thirty years ago, Malaysia's per capita GDP exceeded Korea's, and today Korea's per capita GDP is more than double Malaysia's. Hong Kong and Singapore, which earned a little more than \$1,000 per capita in 1971, today exceed \$21,000 in per capita GDP. Over the past thirty years, these economies have made great strides in overcoming income inequality and developing a solid middle

class. Even amid the deep poverty I observed on my recent trip to Cambodia, I saw the beginnings of a middle class taking shape.

However, these economies are still struggling to overcome the setbacks of the Asian financial crisis of 1997–1998 and, more recently, economic fallout from the SARS epidemic. The Asian Financial crisis revealed structural weaknesses in the region's financial and corporate sectors. Some Asian countries, such as Korea, have taken important steps to resolve the twin problems of non-performing loans and non-performing assets, and have been amply rewarded through increased growth rates. Most countries in the region have moved beyond the pegged exchange rates that exacerbated the crisis, and have seen an improvement in their investment environment. But many economies of Southeast Asia continue to wrestle with bank and corporate reform, leaving structural problems that are seriously impeding growth.

The economic impact of SARS on Southeast Asian countries remains unclear, but it is likely to shave at least some growth from the most affected economies this year. Countries like Singapore and Vietnam moved quickly and decisively to contain the disease and, by taking a transparent approach to the problem, succeeded in restoring the confidence that is key to continuing to attract investment. The APEC SARS Action Plan, recently endorsed by APEC's Trade Ministers, emphasizes APEC's strengths in cross-sectoral outreach to rebuild business confidence and mobility of persons through cooperation and information sharing. The Plan includes convening the first APEC Health Ministers meeting at the end of this month, and responding to the impact on tourism, transportation, industry and social welfare.

The focus you have put on Southeast Asia is well placed, for this region is important to the United States, politically and economically. The region is home to some of the world's fastest growing economies and a number of significant trading partners of the United States. Last year, the U.S. sold to this market of a half-billion people \$57 billion in goods and services, almost twice as much as to China and Hong Kong combined. Large U.S. investment, totaling \$53 billion in the ASEAN countries, has both strengthened our economies ties with the region and expanded opportunities for American business.

These economic ties are part of deep and longstanding alliances and friendships in the region that are as critical to our security as they are to our prosperity. Virtually every country in the region has stood beside us in the war on terrorism. The Bali bombing last October drove home to all of Asia that combating terrorism is a global challenge for local, regional, and worldwide security. Steadfast friends such as Singapore, Indonesia, and the Philippines are helping in the fight against terrorism in many ways. Australia, Japan, Korea and others stood by us on Afghanistan and Iraq. Australia contributed forces on the ground and in the air, Japan pledged \$200 million towards Iraq reconstruction, and Korea sent medical and engineering personnel.

U.S. TRADE POLICY GOALS FOR THE REGION

The United States' number one economic objective in Southeast Asia is to promote growth through expanded trade and investment and accelerated structural reform. The region has seen significant progress in lowering tariffs over the past decade and a half—all but one of our trading partners in the region currently have average tariff rates of below ten percent.

We are continuing to push for even greater liberalization through:

- The cutting edge FTAs we concluded with Singapore and are negotiating with Australia.
- Trade and Investment Framework Agreements, or TIFAs, with Indonesia, the Philippines, Thailand, and Brunei.
- The Enterprise for ASEAN Initiative, announced by President Bush last October, which offers the prospect of bilateral FTAs with individual ASEAN countries that are committed to the economic reforms and openness inherent in an FTA with the United States. The ultimate goal of the EAI is a network of bilateral ASEAN FTAs.
- Bilateral Trade Agreements, with Vietnam and Laos. The BTA with Vietnam has been particularly successful, with trade with that country doubling since the BTA entered into force in December 2001. Our \$8 million technical assistance program played an important role in that success. The BTA with Laos will not go into effect until we have NTR with the country, and we are discussing NTR with Congress. The human rights situation in Laos remains poor, and we hope that NTR will improve the atmosphere for progress in human rights as well.

- Close consultations with the region to help ensure a successful conclusion of the Doha Development Agenda—Southeast Asia will be a major beneficiary of a successful global trade round.
- Continued engagement at the multilateral level through APEC and ASEAN. APEC remains a powerful vehicle for liberalization, as its members have committed themselves to free and open trade and investment in the Asia-Pacific no later than the year 2010 for industrialized economies and 2020 for developing economies.

At the APEC Leaders' meeting coming up in October in Bangkok, we expect President Bush to introduce new initiatives related to countering terrorism while facilitating trade and investment. We are also pursuing agreements in APEC designed to further liberalize air transportation, protect copyrights, and help APEC members implement the structural reform that will be key to continued economic growth.

As tariffs have fallen, we have focused increasing attention on non-tariff barriers faced by American business, such as weak judiciaries, inefficient customs procedures, divergent standards, and poor IPR enforcement. We are currently working through both bilateral and multilateral channels to solve these issues. For example, the State Department, working closely with the U.S. and China Customs and the private sector in the APEC forum, launched an express package customs initiative in Shanghai that led to significant improvement in the speed and cost of customs processing.

We are working on an ASEAN Cooperation Arrangement on Automotive Standards to create consistent safety and environmental standards throughout ASEAN, and to further ASEAN economic integration. We are pushing in both ASEAN and APEC initiatives to increase investment in the life sciences sector through regulatory harmonization. We have launched an ambitious initiative in APEC to fight digital piracy. In programs in both APEC and ASEAN, we are also encouraging countries in the region to adopt agricultural biotechnology products and to build regulatory capacity to permit the sale and use of those products in the region.

In the area of investment, even amidst an uneven recovery from the Asian financial crisis, we have watched this part of the world attract significant amounts of foreign capital. However, recent years have seen a significant fall in foreign investment to the region, in part due to problems related to weak legal institutions. Between 1997 and 2001, annual flows of foreign direct investment in ASEAN fell by more than half, from investment of \$30 billion in 1997 to only \$13 billion in 2001.

The Asia Pulp and Paper (APP) case is a good example of why FDI is declining. APP is a firm based in Indonesia and Singapore that has defaulted on \$14 billion worth of debt, almost half of it owed by its four Indonesian units. Foreign firms are owed \$960 million, a significant portion held by American creditors. On behalf of the American creditors of the APP, the State Department and the U.S. Export-Import Bank have worked bilaterally with Indonesia and multilaterally with a coalition of Ex-Im Bank and 10 other Export Credit Agencies that hold APP debt. Improved corporate transparency and judicial accountability in Indonesia—sorely lacking in the APP case—would help attract foreign investment.

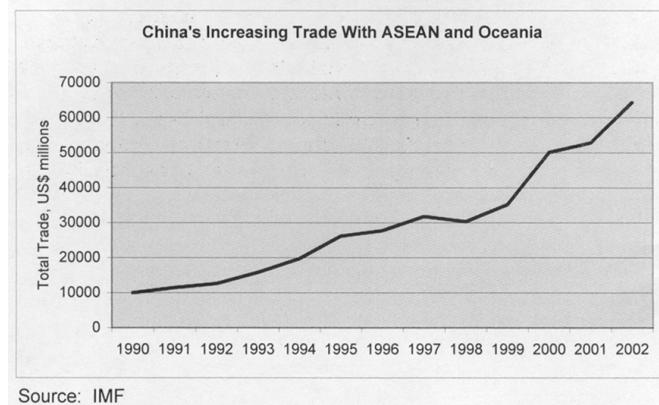
Indonesia is not alone in the need to improve governance. A recent survey by the Department of State found that, despite a reasonably strong matrix of laws and regulations governing public disclosure of most regional governments' budget and privatization tendencies, such laws and regulations are unevenly enforced and moderately transparent at best. In APEC, we have launched the "Transparency by 2005 Strategy" to implement APEC's transparency standards, which will enhance good governance, increase regulatory certainty, and attract investment in APEC economies.

We are working to encourage all countries in the region to improve the investment climate with legal institutions and reforms that protect people and their property, allow peaceful resolution of disputes, facilitate economic exchange, and hold their governments accountable. On a multilateral basis, the United States is leading efforts in APEC to promote best practices in the area of corporate restructuring.

INTRA-REGIONAL COOPERATION: CHINA'S NEW ROLE

In recent years there has been a plethora of trade and investment arrangements both among Southeast Asian economies and with countries outside that region. Long-delayed integration of ASEAN economies through the ASEAN Free Trade Agreement is making some important progress with most elements of the Accord to be in place by 2005. Meanwhile, a group of countries including ASEAN members plus China, Japan and Korea (the so-called "ASEAN plus three") have concluded accords on foreign currency swaps and hold annual meetings to talk about how to advance integration.

China's rising economic power in particular has made it a new presence in Southeast Asia. In sharp contrast to its trade with the US, China runs a significant trade deficit with Asian emerging economies, reflecting in large part its role as processor of materials and parts imported from Southeast Asia for sale in the US. For example, China is the number three export market for Malaysia and the fifth largest for Malaysia and Thailand. China has become Korea's second most important export destination. As China continues to import more, it is becoming one of the region's most important engines of growth. In that role, China's ongoing economic transformation can significantly enhance Asian and global economic growth and stability.



China is seeking to further cement those ties through an FTA with ASEAN. It is also nearing conclusion of a Closer Economic Partnership Agreement with Hong Kong and is exploring FTAs with Korea and Japan.

We view China's integration into regional and global organizations and arrangements as a positive development. Not only is China committing itself to playing by the rules of some trade-related international fora, but it also has an increasing stake in seeing that others do the same. And as its economy and prosperity become linked more closely to relationships with trading partners, it has a greater stake in peace and stability in the Asia-Pacific region and the world. China made significant progress in fulfilling its WTO commitments during its first year as a member. Serious shortcomings, however, in agriculture, services, IPR enforcement and transparency need to be addressed, and are being addressed.

Nonetheless, we cannot ignore the fact that China's growing economic power has created a competition for influence in the region, which makes it all the more important for the United States to remain actively engaged with our Asian allies. While China has not moved aggressively to garner political capital from its growing economic strength, there is no denying its prominence on the Asian political stage. We need only to look as far as Taiwan—where firms are queuing up to move operations to China and whose executives lobby for freer access to the Chinese market—to see how quickly economics can change a political dynamic. Neither can we ignore the fact that the Chinese military is a beneficiary of the country's rapid economic growth, which underscores the necessity of sustaining a modest military-to-military relationship with the People's Liberation Army within the guidelines established by Congress.

BURMA

I cannot close this testimony without discussing the deplorable situation in Burma, and our administration's response. We are appalled at the crackdown engineered by the ruling junta, the State Peace and Development Council (SPDC), on those who stand for freedom. On May 30, government-affiliated thugs launched a premeditated attack on the caravan of Daw Aung San Suu Kyi and her supporters. The attack left many injured and some dead. The SPDC claim that the caravan provoked the incident is nonsense.

We strongly condemn the continued detention of Aung San Suu Kyi, in supposed "protective custody," and we are especially appalled at reports that she has been detained in the notorious Insein prison without access to visitors. We again call for her immediate release and that of the leadership of her party, the National League

for Democracy. We call for the formulation of a concrete plan to restore democracy in Burma.

As Secretary Powell announced previously, we are increasing the pressure on the SPDC in response to their rejection of reform. We support the goals and intent of the bills introduced here and in the Senate and are working on an appropriate set of new steps.

We support efforts to restrict imports from Burma, as long as the President is given an appropriately flexible waiver authority. Meanwhile, the State Department has acted to expand our visa restrictions on Burmese officials. We are preparing an executive order for the President to freeze the assets of SPDC members, and ban remittances to Burma from the United States. We are supportive of legislation that would place restrictions on travel-related transactions.

We continue to coordinate with counterparts in the international community. Member states of the European Union have already agreed to toughen their common position against the SPDC. Canada is looking at visa restrictions. When Secretary Powell was in Phnom Penh, he pressed the member states of ASEAN to reject the unacceptable behavior of their neighbor, and we welcome their statement calling for the release of Aung San Suu Kyi. We support their plans to send a troika delegation to Rangoon.

Thank you.

Mr. LEACH. Mr. Ives.

**STATEMENT OF THE HONORABLE RALPH F. IVES, ASSISTANT
U.S. TRADE REPRESENTATIVE FOR ASIA-PACIFIC AND APEC
AFFAIRS**

Mr. IVES. Thank you, Mr. Chairman, Mr. Faleomavaega, Members of the Subcommittee.

Mr. LEACH. If you could pull your microphone closer, Mr. Ives.

Mr. IVES. Thank you, Mr. Chairman, Mr. Faleomavaega, and Members of the Subcommittee, for inviting me to testify today on the Administration's trade policy toward Southeast Asia and the Pacific. I welcome this opportunity to describe the Administration's approach to engage this important region in opening markets to our mutual benefit.

Without the support of Congress, the Administration could not begin to achieve its ambitious trade objectives. During the passage of the Trade Act of 2002, including Trade Promotion Authority, provided us the credibility to make that happen. The Administration has launched or revitalized major trade initiatives designed to expand trade and open markets globally, regionally, and bilaterally. The USTR Ambassador Zoellick describes U.S. trade strategy as competitive liberalization, that is pursuing trade liberalization on multiple fronts, as the most effective way to achieve open markets.

Let me describe these efforts in the Asia-Pacific region. The members of ASEAN form an important trading group of nations, combined our fifth largest trading partner, with wildly different trade flows and levels of economic development. Despite these vast differences, the ASEAN countries have been attempting to integrate their economies in a regional free trade area. The Administration supports this process as beneficial to ASEAN and to the United States.

President Bush recognized the potential of ASEAN when he announced the Enterprise for ASEAN Initiative. As Secretary Kelly said, the EAI offers the prospect of an FTA to ASEAN members that are committed to economic reforms and market openness inherent in a comprehensive free trade agreement.

The EAI addresses the ASEAN countries' different levels of development and the need to proceed at different speeds with each

of these countries, and that is what we are doing. We have already signed the comprehensive free trade agreement with Singapore and are working with Congress on legislation needed to implement that agreement.

For future FTAs in ASEAN, the President imposed two minimum conditions: Membership in the WTO and conclusion of a Trade Investment Framework Agreement. Thailand and the Philippines, Indonesia, and Brunei have met both of these EAI conditions. Thailand has expressed an interest in an FTA. We are working with Thailand to make progress on existing commitments under the TIFA as a necessary first step toward a possible FTA. At the same time, we are working with them on the WTO negotiations. Ambassador Zoellick has held several ministerial sessions under the TIFAs with his counterparts in Indonesia and the Philippines. We have strong trade relations with these countries, and we want to develop these relationships even further. We are also working with the ASEAN members that have not yet joined the WTO, Cambodia, Vietnam, and Laos.

The EAI also calls for working with the ASEAN nations together. The basic idea of working with the ASEAN countries as a group is to reinforce their integration and bring along countries that are not yet ready for free trade agreements.

The EAI comes at an opportune time with respect to our trade initiatives. We can seek to make progress with the WTO negotiations, and at the same time we can enhance our bilateral trade relationship with each of the ASEAN countries.

The EAI also comes at the right time to advance our commercial interests. ASEAN is engaged in FTA negotiations with a number of other countries, China, India, Japan; and the plus 3 framework of Korea, Japan and China; and individual ASEAN member are pursuing separate FTAs. For example, Singapore is at various stages of its FTA network with Australia, Japan, New Zealand, Canada, India, Jordan, Korea and Mexico. Thailand also has an active FTA process with Japan, China, Bahrain, India and Australia.

Of course, the United States is also engaged in FTA negotiations with Australia, which began in mid-March, and which President Bush has instructed us to conclude this year. At the same time as the United States and Australia FTA negotiations are going on, we have strengthened even further our coordination with Australia in the WTO negotiations. We are also working closely with New Zealand in the WTO negotiations, where we share many common objectives. In addition, we have a TIFA with New Zealand and have met several times under its auspices, including recent consultations with them on the provisions of the United States FTAs with Chile and Singapore.

As you can see, interest in free trade agreements has increased substantially among countries in the Asia-Pacific region, but this is not unique to this region. The trend to more FTA is expected to continue. We are closely monitoring these FTAs. The U.S. policy is that FTAs should be consistent with WTO provisions. Most of our monitoring occurs in the WTO, but we have created a group in APEC to also look at these FTAs.

APEC is also a useful forum in which to press for progress in the WTO negotiations and to address specific trade issues such as

transparency, trade facilitations, and the digital economy, all of which can help us expand trade. And that is a key U.S. objective. As Ambassador Zoellick remarked, follow the FTAs. We will launch them, negotiate them, pass them, and launch some more. Our aim is to use FTAs in conjunction with our global and regional negotiations to create a new, ongoing momentum for trade policy.

And that is the United States trade policy in the Asia-Pacific region and the rest of the world. Thank you, Mr. Chairman. I would be pleased to respond to any questions.

Mr. LEACH. Thank you very much.

[The prepared statement of Mr. Ives follows:]

PREPARED STATEMENT OF THE HONORABLE RALPH F. IVES, ASSISTANT U.S. TRADE REPRESENTATIVE FOR ASIA-PACIFIC AND APEC AFFAIRS

INTRODUCTION

Thank you Mr. Chairman, Mr. Faleomavaega, and members of this Subcommittee, for inviting me to testify today on the Administration's trade policy toward Southeast Asia and the Pacific. I welcome this opportunity to describe our approach to engage this important region in opening markets for our mutual benefit.

Without the support of Congress, the Administration could not begin to achieve its ambitious trade objectives. During the past two years, we have worked to regain U.S. leadership on global trade issues. The passage of the Trade Act of 2002, including Trade Promotion Authority (TPA), provided us the credibility to make that happen.

Using TPA procedures, we hope to secure Congressional approval of the agreements and legislation needed to implement both the U.S.-Singapore FTA and the U.S.-Chile FTA. We are working with Members of Congress to try to achieve this in the near future.

The Administration has also launched or revitalized other major trade initiatives designed to expand trade and open markets globally, regionally and bilaterally. These include the World Trade Organization (WTO) negotiations on the Doha Development Agenda, the Free Trade Area of the Americas, and FTA negotiations with Australia, Central America, Morocco, and the South African Customs Union. The President recently announced a Middle East Free Trade Area Initiative. Within Asia region, the President announced the Enterprise for ASEAN Initiative.

Ambassador Zoellick has described the Administration's trade strategy as "competitive liberalization," i.e., pursuing trade liberalization initiatives on multiple fronts as the most effective way to achieve open markets for U.S. farmers, ranchers, manufacturers, and create high-paying jobs for Americans. Open markets also provide U.S. consumers and manufacturers with access to imports that stretch family budgets and improve the competitiveness of U.S. firms. Our bilateral, regional and global negotiations are mutually reinforcing. Countries that resist trade liberalization risk being left behind as more and more countries, including the United States, keep the pressure on by opening markets through bilateral or regional trade agreements.

The Administration's trade strategy is already creating a competitive dynamic in favor of further trade liberalization among the countries of Southeast Asia. Let me describe the Administration's efforts in this region.

ASEAN

The member countries of the Association of Southeast Asian Nations (ASEAN) form an important group of trading nations. Two-way trade in goods between the United States and ASEAN was over \$120 billion in 2002, making this combined group of countries our 5th largest trading partner. Trade in services would add another \$14 billion. The stock of U.S. direct investment in ASEAN was over \$50 billion in 2001.

What these aggregate figures do not reveal is how widely U.S. trade varies with individual members of ASEAN and the levels of their economic development. U.S. two-way trade in goods with each of our largest ASEAN trading partners, Malaysia and Singapore, was over \$30 billion as compared to U.S. trade with Laos of about \$6 million. Similarly, Singapore is one of the wealthiest countries in the world, and Cambodia and Laos are two of the poorest.

ASEAN also includes Burma. The Administration is outraged by recent events in Burma. The regime's renewed campaign of violence and repression against the National League for Democracy and Aung San Suu Kyi illustrate its blatant disregard for the basic rights of the Burmese people and the path towards reconciliation and democracy. The Administration is now taking measures to increase pressure on the regime. While we commend ASEAN for its recent steps, we encourage ASEAN to act decisively to address the problems in Burma that affect the region. We will continue to work with you and others in Congress on legislation that will send a strong message to the regime controlling that country.

Despite vast differences, the ASEAN countries have been attempting to integrate their economies into a regional free trade area—the ASEAN Free Trade Area (AFTA). The ASEAN countries set the goal of achieving tariffs of under 5 percent for trade among them by 2002 for the more advanced members and by 2010 for the least advanced, with some sensitive products being subject to an even longer time frame. They have largely met that goal. The schedule for complete duty elimination is 2010 for the six advanced members and by 2015 for the other four members.

The Administration supports the AFTA process. U.S. industry and farmers see the ASEAN countries as an attractive regional market, which would become even more so as the ASEAN integrate their commercial policies. Increased trade among the ASEAN countries can contribute to the region's economic development, making the region an even more attractive market for U.S. goods and services.

President Bush recognized this potential of ASEAN when he announced the EAI at the meeting of Leaders of the Asia Pacific Economic Cooperation (APEC) forum in Los Cabos, Mexico last October. In brief, the EAI offers the prospect of an FTA to individual ASEAN members that are committed to the economic reforms and market openness inherent in a comprehensive FTA with the United States. The ultimate goal of the EAI is a network of bilateral FTAs in the ASEAN region.

The EAI addresses the ASEAN countries' differing levels of development and the need to proceed at different speeds with each of these countries—thereby allowing the United States and ASEAN countries the necessary flexibility in timing and preparation. The U.S. offer was made in a spirit of cooperation and engagement with the region, and was received as such. We have been working with the ASEAN to fulfill the President's vision for this region.

We have already signed an FTA with Singapore. This FTA is a state-of-the-art comprehensive agreement, building on the basic foundation of the NAFTA and the WTO agreements, and improves upon them in a number of ways. The U.S.-Singapore FTA can serve as the basis for other possible FTAs in Southeast Asia.

The President imposed two minimum conditions that must be met to consider launching an FTA negotiation with an ASEAN member under the EAI. First, the country must be a member of the WTO. WTO membership ensures that a potential FTA partner has undertaken and implemented a broad range of trade obligations that constitute baseline standards.

Second, the United States and our trading partner must have concluded and strengthened their commercial relationship under a Trade and Investment Framework Agreement (TIFA). Dialogue under the TIFA allows us to resolve key outstanding trade issues and to prepare the groundwork for possible FTA negotiations. For example, we may seek improvements in our trading partners' protection and enforcement of intellectual property rights (IPR), mitigation of customs-related problems, and resolution of specific market access issues. Of course, because the discussions are intended to be mutually beneficial, we try to address issues identified by our trading partners. This work under the TIFA builds confidence and helps prepare for an even stronger commercial relationship.

The President considers other factors, in addition to the two pre-conditions, when deciding whether to actually initiate FTA negotiations. Thailand, the Philippines, Indonesia and Brunei have met both EAI conditions—i.e., they are WTO members and have concluded TIFAs with us. We have also offered under the EAI to negotiate a TIFA with Malaysia, which is a WTO member.

Thailand has expressed an interest in an FTA. When they met on June 10th, President Bush and Thai Prime Minister Thaksin agreed to make tangible progress on existing commitments under the TIFA, including in the areas of intellectual property rights, investment, and customs, as a necessary first step towards a possible FTA. Both leaders also committed to work together on the WTO's Doha Development Agenda negotiations. Ambassador Zoellick and Commerce Minister Adisai met later that day to discuss how both sides could achieve these commitments.

Ambassador Zoellick has also held several ministerial-level sessions under the TIFA with his counterparts in Indonesia and the Philippines. We have strong trade relations with both countries and want to develop these relationships even further.

We are also working with the three ASEAN members that have not yet joined the WTO. Cambodia's accession process appears nearly complete, and we hope it can become a WTO member this year.

Vietnam's WTO accession process will require some additional time and effort. While entry into force of the U.S.-Vietnam Bilateral Trade Agreement (BTA) in December 2001 provided a solid foundation upon which to build, WTO membership carries a broader range of obligations and deeper commitments to 146 nations—i.e., greater trade and investment liberalization—than in the BTA. We believe, however, the assistance the United States is providing Vietnam to implement the BTA is helping it prepare for WTO membership.

Laos is one of only a few countries with which we do not trade on a Normal Trade Relations (NTR) status. As a result, U.S. tariffs on imports from Laos are very high, and the trade data reflects this. Two-way trade with Laos was only \$6 million last year. By way of comparison, U.S. two-way trade with Vietnam roughly doubled during the year following entry into force of the BTA, which allowed us to provide NTR status to Vietnam, and was nearly \$3 billion in 2002. The Administration supports granting NTR status to Laos and implementing the Bilateral Trade Agreement negotiated between Laos and the United States in 1997.

This approach of working bilaterally with each ASEAN member allows each to proceed at a pace comfortable and appropriate to each relationship. Those countries that want to advance faster can do so; those that need to liberalize more slowly can take their time. The result has been the unleashing of a competitive liberalization dynamic, in which several of the ASEAN countries have expressed an interest in exploring an FTA, and those members of ASEAN not yet in the WTO are striving mightily to join.

The EAI also calls for working with the ASEAN nations together. Trade Ministers endorsed a joint action program covering a number of areas, and the United States has made specific proposals in some—such as IPR and customs—on which to begin work. The basic idea of working with ASEAN countries as a group is to reinforce their integration efforts and to bring along countries that are not yet ready for FTAs. The work program can help generate progress in areas critical to ASEAN integration and that will help ASEAN members meet the challenges of greater trade liberalization.

The EAI comes at an opportune time with respect to our trade initiatives. Ambassador Zoellick has participated in several meetings of ASEAN ministers to discuss progress on the EAI and to advance the WTO Doha Development Agenda. As the United States pursues the EAI, the Administration wants to make concurrent progress on multilateral negotiations in the WTO. This approach demonstrates the Administration's strategy of competitive liberalization—moving on a global, regional and bilateral basis encourages more open markets than focusing on only a single vehicle.

The EAI also comes at the right time to advance U.S. commercial interests. The members of ASEAN are engaged in FTA negotiations with a number of other countries. As a group, the ASEAN have FTA negotiations under way with China, India and Japan, as well as discussions of an ASEAN plus 3 arrangement, involving China, Japan and Korea.

Singapore has been the most prolific FTA negotiator in ASEAN. Singapore has concluded FTAs with Australia, Japan and New Zealand and has on-going negotiations with Canada, India, Korea, and Mexico, and a trilateral negotiation involving New Zealand and Chile.

Thailand is also beginning its own active FTA process. It has conducted a serious examination of a FTA with Japan, recently began FTA negotiations with China, is well along in its FTA negotiations with Australia, is finalizing a trade agreement with India, and recently completed an FTA with Bahrain.

AUSTRALIA AND NEW ZEALAND

The United States is also engaged in FTA negotiations with Australia. President Bush launched these negotiations last November, and the first session took place in mid-March in Canberra. The FTA with Australia will be comprehensive. U.S. proposals are largely modeled after our FTAs with Singapore and Chile. President Bush and Prime Minister Howard have given us a very ambitious goal of completing these negotiations by the end of 2003, and both teams are working hard to achieve the objective of a strong FTA that is in our economic interest by that date.

The U.S.-Australia FTA negotiations have strengthened even further our coordination with Australia in the WTO. Both the United States and Australia remain firmly committed to successful completion of the WTO negotiations by the agreed deadline of 2005. Both are seeking ambitious results for agriculture, market access

in goods, and services. And, both see the wisdom of engaging in bilateral trade negotiations while pursuing global trade liberalization.

We are also working closely with New Zealand in the WTO negotiations, where we share many common objectives. In addition, we have a TIFA with New Zealand and have met recently under its auspices. Just this week, we conducted detailed consultations with New Zealand on our FTAs with Chile and Singapore. We also agreed to keep New Zealand informed of progress on the U.S.-Australia FTA negotiations. The purpose of this dialogue is to ensure that New Zealand is familiar with the type of FTAs the United States has negotiated with other trading partners in the event a decision is made to proceed to FTA negotiations.

IMPLICATIONS OF REGIONAL TRADE AGREEMENTS

As you can see, interest in FTAs has increased substantially among countries in the Asia-Pacific region, but this is not unique to this region. By one count, about 150 FTAs are currently in operation around the world. The European Union alone has 30 free trade or special customs agreements and is negotiating more. The number of regional or free trade agreements in which at least one WTO member participates has roughly doubled in the past decade.

This trend of more FTAs is expected to continue. According to the OECD, the percentage of world trade accounted for by preferential trade agreements is expected to grow from 43 percent at present to 55 percent by 2005.

We are closely monitoring these FTAs. The U.S. policy is that FTAs should be consistent with WTO provisions. That is, they should cover substantially all trade in goods and include substantial sectoral coverage of services. Several other requirements relating to trade in goods must be met as well.

While most WTO oversight of FTAs occurs in the Committee on Regional Trade Agreements, the United States was instrumental in convening a senior officials' review of trade agreements in APEC this May. The main purpose of this initial exercise was transparency. We wanted APEC members to discuss the contents of their FTAs in a setting that offered the prospect of frank exchanges without the worry of possible dispute settlement. This initial meeting was so successful that APEC Trade Ministers called for further APEC work in this area.

FTAs have become a fact of international trade. The United States, which is currently only a member of 3 such arrangements—NAFTA, Israel, and Jordan—with two more awaiting Congressional approval, has some catching up to do.

CONCLUSION

As Ambassador Zoellick remarked “. . . follow the FTAs. We will launch them, negotiate them, pass them, and then launch some more. Our aim is to use FTAs—in conjunction with our global and regional negotiations—to create a new, on-going momentum for trade policy.”

That is U.S. trade policy with the Southeast Asia and the Pacific region, and the rest of the world.

Thank you, Mr. Chairman. I would be pleased to respond to any questions.

Mr. LEACH. And first let me say that while this Subcommittee meeting is about trade, Secretary Kelly raised the Aung San Suu Kyi issue. I think it fair to say that there is unanimity in this Committee on this subject matter, and I am confident, in the Congress as well. This is an incredibly serious issue in world affairs. The placement of Aung San Suu Kyi in prison is absolutely appalling.

Mr. Faleomavaega and I have met with the Ambassador from Burma and expressed our concerns, as well as gave him a copy of the legislation that the Committee has passed. He has indicated to us that he expected an early release. We have seen no evidence of that to date. We hope that his word is good. But this is an obvious difficulty in our relations with that particular country, and I think it will be a stinging circumstance for a long time to come unless it is resolved in a happy fashion.

With regard to the subject matter before us, I would like simply to stress that I am extremely impressed with the diligence with which the Administration has pressed the trade agreement with Singapore. I would hope that it would be extended in other ways

with other countries, particularly Australia and New Zealand. There is sometimes a desire to exclude New Zealand from the process for reasons that relate to certain differences with New Zealand on naval issues. On the other hand, there are a lot of reasons to think that New Zealand fits very well with a free trade agreement, for reasons of both philosophy, democratic, economic and political, as well as shared values and commitments and sacrifices of the last century to put New Zealand high on the list. And a difference over one particular set of problems today, I think, should not overwhelm the credibility of a free trade agreement. I can understand why we wouldn't want to put New Zealand ahead of Australia, but I do not understand why we would not want to put New Zealand right with Australia.

I would like to have your comments on this, Mr. Secretary.

Mr. KELLY. I think that with respect to the details of the free trade agreements, I would have to ask Mr. Ives, but there is no institutional reason that New Zealand cannot receive or undergo negotiations for a free trade agreement. Obviously, Australia is a much larger and more significant economy. We have much greater amount of trade with Australia, particularly in a two-way direction, than is the case with New Zealand.

I would take some issue, if I heard correctly in your initial statement, sir. For over 100 years New Zealand was with us in every war until the current one. It clearly chose not to be with us in Iraq, although I must say that in the aftermath, New Zealand is working hard putting together a very valuable and useful package to assist in the reconstruction and rehabilitation of Iraq in the aftermath of it. Moreover, in the campaign in Afghanistan, Operation Enduring Freedom, New Zealand has been an exceptionally valuable supporter and participant and helper. So I want to be very balanced in what I am saying.

But, the Iraq issue, and the provision by which nuclear-propelled ships cannot visit New Zealand, which is enshrined in their law, are disappointments between countries that were longtime allies, but these matters do not represent impediments to an ongoing and strong trade relationship. The precise timing of when and how free trade agreements will be pursued is something I would have to leave to Mr. Ives and his colleagues at the USTR.

Mr. LEACH. Well, first let me say I appreciate your comments in that regard. By the way, your description of Iraq and Afghanistan is precisely the description I gave in my statement.

With regard to the nuclear issue, I fully support the position of the Administration in this regard. I think New Zealand has erred profoundly in not accepting our ship visits. On the other hand, I appreciate very much what you said about that it shouldn't be an impediment to trade relations, and that, I think, is the central issue of this conversation, and I appreciate very much what the representative of the Department of State has just said.

Let me just shift gears slightly with one more question before turning to Mr. Faleomavaega. Recently the Council of Foreign Relations has recommended a new commercial kind of emphasis for United States Ambassadors in the region, and this is unusual because the CFR has been a very politically oriented body over the years and has come up with ideas of putting review of Embassies

based upon the commercial emphasis instead of simply the political emphasis. I think this is a very constructive circumstance. And it is a problem of American diplomacy for decades, people in the Department have understood, the Department of State has historically been less commercially oriented than other foreign ministries around the world even though we have in every Embassy commercial functionaries.

But I think upgrading the commercial emphasis is very important, and I have often thought that it is the greatest argument that has not been given by the Department of State. It should be a bedrock Department of State circumstance for expanding consular offices around the world. And the cutbacks at the State that occurred prior decades on consular offices to me has been deeply irrational, and it is this commercial mission that I think is part of the new world we are in.

And I just want to ask if the Council of Foreign Relations recommendations have seeped into the Department of State's review process as well?

Mr. KELLY. Mr. Chairman, they certainly will. I think in many respects have been acted on in advance. In the 41 diplomatic posts that we have in East Asia-Pacific, I think some 30 Embassies, every one of our Ambassadors, has as a principal focus of their responsibilities to improve American economic relationships with the country to which they are accredited, and that means to help American business do business in the countries involved. And there are example after example of how that emphasis is provided. And it is not just the job of the commercial counselors. We have got some good people there. We have agricultural counselors, who are also extremely important. We, of course, have economic officers from the Department of State as well.

These are not peripheral interests, and they represent, especially in East Asia, the changes that I identified that have occurred in which the Asian countries are much more significant as economic and trade players; as well as enormous growth of trade with China, and the very substantial volume of the trade with Southeast Asia. The CFR recommendations are going to be carefully examined to see if there are some niches that we are not already emphasizing. This comes from Secretary Powell and the President right on down. And all of our missions, I think you will find, are highly focused on improving the access and availability for American business.

Mr. LEACH. Thank you very much, Mr. Secretary.

Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

Initially I just want to say that I do want to associate myself with the comments and the concerns raised earlier by the Chairman concerning our relationship with New Zealand. And I think, Secretary Kelly, you quite adequately pointed out the many areas and instances where New Zealand has been an ally to us: The fact that they plan to send a group of military engineers to assist with our situation in Iraq; they currently have a reconstruction team in Afghanistan; we are currently exchanging intelligence reports and information in our efforts in fighting global terrorism, all these things put together. And, of course, one of the agonizing issues that

has always put our relationship with New Zealand in question is that of the nuclear issue.

But I would like to ask Mr. Ives in a more definitive way if he, the USTR, is planning definitely to negate an FTA agreement with New Zealand, or is this put on the back burner, or is it because of the Prime Minister of New Zealand's remarks about the Iraq war that caused President Bush to get a little bit annoyed by it, putting it mildly? I would like to ask Mr. Ives for his comments.

Mr. IVES. Thank you, Congressman.

I think Assistant Secretary Kelly has addressed the political issues, so I will address the trade question regarding New Zealand. We—as I indicated, we have a very close trading relationship with New Zealand. We work very well in the WTO negotiations. We share many common interests, particularly in the agriculture areas, to try to push those negotiations forward. We also have a strong bilateral relationship, and we have been working very closely with New Zealand under our Trade Investment Framework Agreement.

There has been no decision whether to pursue an FTA with New Zealand. There has been no decision not to pursue an FTA with New Zealand. One of the points that the Assistant Secretary alluded to is the vast difference in our trade relationship with Australia, which is roughly 10 times the size of our trade relationship with New Zealand. And USTR has limited resources. We are pursuing trade agreements on a number of fronts.

So New Zealand remains a possibility. To keep New Zealand up to speed, if you will, we have briefed New Zealand on our trade agreements with Chile and Singapore. In fact, we had a full team from New Zealand here yesterday, spent the entire day with them making sure that they understood those provisions. And likewise, we are keeping them briefed on the status of the FTA negotiations with Australia with the idea being that if the decision is made, we are hot off the mark, and there won't be any time delay.

Mr. FALCOMA. I raised the question earlier, does the Administration have an established policy, kind of like a package; if a country has expressed an interest in wanting to do an FTA agreement with our country, do we have a standard position in saying that this is what you have to do as far as labor problems are concerned, this is what you have to do as far as environmental issues are concerned? Because what happened in NAFTA seems to have gotten over some of these very serious concerns. My good friend from Ohio Mr. Brown had mentioned earlier the concerns that he has with our free trade agreement with Singapore.

But I am just curious, as I had raised the issue earlier, do we currently have an established policy in saying, okay, this is exactly how we are going to pursue it, or is it by reaction or reacting to a different situation because of political reasons or because of national security interests? Is there a systematic way that we have now in place that allows us to say that this country will be definitely given due consideration as far as FTA is concerned?

Mr. IVES. The Administration wants to pursue free trade agreements taking into account different geographic areas and different levels of development. So you can see that within the Western Hemisphere, we are pursuing the free trade area of the Americas.

We are pursuing the FTA with the Central American countries. The President is moving east, if you will. The President announced a Middle East initiative that would encompass free trade agreements. He has the Enterprise for ASEAN Initiative. Likewise we are negotiating with the Africans.

So we are trying to make sure we have a mix of developed countries, developing, Australia and different geographic regions.

Mr. FALEOMAVEGA. Secretary Powell recently wrote a letter to Mr. Zoellick concerning whether or not we should normalize trade relations with Laos. It is my understanding also that Members of the Committee on Ways and Means have expressed the same sense of support and wanted to ask you if, in fact, this is now in place. Do we now have normalized trade relations with Laos?

Mr. IVES. We do not. The Administration supports normalizing trade relations with Laos. We would like to work with Congress to make that happen.

Mr. FALEOMAVEGA. The Administration does intend to establish that relationship?

Mr. IVES. We need congressional legislation to make that happen, sir.

Mr. FALEOMAVEGA. I think my time is up, Mr. Chairman.

Mr. LEACH. Thank you very much, Mr. Faleomavaega.

Mr. Chabot.

Oh, he is not here.

Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

I have some problems with our trade relations with this region, and I will have to admit it is not just new, fresh with this Administration. It has been going on for a while. But there seems to be some new contradictions emerging that are somewhat troublesome for me with this Administration.

Let me get this right. We are pushing for a free trade agreement with Singapore, but we are not with New Zealand. And Singapore, which is not a totalitarian country or a dictatorship, it is certainly not within, you know—it is less democratic than what we would prefer. But New Zealand, on the other hand, does have a very democratic government by anyone's standards.

Perhaps you could enlighten me as to why we are favoring the more authoritarian of the two. Either one of you would be fine.

Mr. IVES. Well, I could address it from a commercial perspective. Our bilateral trade with Singapore is roughly \$40 billion. Our bilateral—excuse me, two-way trade with New Zealand is about \$2 billion. So commercially in terms of opening markets for American industry for service suppliers, Singapore provides a much—if you will, a bigger bang for the buck on a commercial basis.

Mr. ROHRABACHER. Of course that 40 billion, no one believes that Singapore produces the \$40 billion, do we? That is transshipping, isn't it?

Mr. IVES. A lot of it is produced in Singapore. Some of it goes through, but a lot of it is produced. They have big electronics manufacturing facilities.

Mr. ROHRABACHER. "A lot" really isn't a very specific term. Would you say a majority of what this \$40 billion is produced right in Singapore and not transshipped?

Mr. IVES. I don't have the precise figures. If you would like, I would try to get that for you, sir.

Mr. ROHRABACHER. What about it, Mr. Kelly? It makes no difference that Singapore is less democratic than New Zealand?

Mr. KELLY. Well, the answer, Mr. Rohrabacher, is that we have not, for example, used the index of freedom to match up perfectly the intensity of our trade relationships, but it is certainly true that these considerations come in. Burma, for example, falls in a line in which trade sanctions and trade impediments are simply necessary to recognize how bad the Burmese government has been. The judgment, of course, of how bad or how good is one that changes a bit, and one in which improved commercial relationships are a factor. It is not a complete disconnect; it is obviously not a direct relationship, but as we have stronger commercial relationships, there is a tendency for openness. And we have seen this, of course, very significantly in East Asia, especially, of course, in Korea and Taiwan. So it is not a precise index, I would say.

Mr. ROHRABACHER. Well, I would applaud you to where the freedom index is part of the decision-making process. I—certainly my motto is free trade between free people. And when you don't have freedom within one side of the equation, it is not really free trade, it is managed, and it is manipulated, and it is what you would expect from a gangster-run society like some of these countries we are talking about.

But you mentioned Burma. For some reason there seems to be a disconnect between what we are doing in talking about Burma. Maybe it is because we have a figure like Aung San Suu Kyi that we can identify with, versus Laos. I mean, pardon me, but am I missing something in terms of this incredible wave of reform, democratic reform, in Laos? Maybe I just missed that.

Mr. KELLY. Laos continues, as you understand very, very well, to have very serious human rights problems. They are not, in our view, getting worse. And the difference is that Burma, because of really ancient trade history, is a WTO member. So without positive impediments, we would have completely unrestrained trade.

Laos is in a category of countries without normal trading relations along with North Korea, and I think one other essentially completely outside-the-pale country. Laos human rights record is not very good. They need to improve. And we think that they can improve with NTR, and that is the reason that we are going forward. We don't think the situation is as bad as in other countries.

Mr. ROHRABACHER. I would hope that the freedom index, as you suggest, is becoming more of a factor. Certainly I don't see any democratic reform in Laos. Maybe they let a couple of prisoners go here, but they probably put a few more in over here. It is still a closed society. In fact, Burma and Laos, the regimes of these two countries share—I think they share everything except probably a hammer and sickle lapel pin. And that is what signifies one is for the people and the other one is just a military dictatorship.

And so it is a little—it is concerning there to me that we have this sort of a—the freedom index isn't part of the equation.

Mr. Chairman, my time is obviously up. I will wait for the second round of questions to discuss how all this relates to Communist

China, which appears to be the biggest human rights abuser in the world. So we will get back to that. Thank you.

Mr. LEACH. Thank you very much.

Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

I appreciated Ambassador Kelly's comments about looking forward in our relationship with New Zealand past some issues about nuclear ship prohibition, and perhaps disagreement with Iraq toward where we go from here.

I hope the Administration will have a forward looking view. We are going to need desperately help in these countries like Iraq, in Afghanistan, and if we are going to be punitive toward the vast majority of the world's population that disagreed with us, I think that ultimately we will be self-defeating. It is not going to help us economically. It is certainly not going to help us as we try and win the peace in these troubled countries. And I appreciated your forward looking observation.

I also appreciated your making note of the fact that we have got maybe a water shed moment with ASEAN in terms of focusing on the Burmese regime and the shameful treatment of Aung Sun Suu Kyi. I am curious if there is going to be an opportunity to use the leverage, the diplomatic and economic power that we have with the ASEAN nations that this isn't just a signal of the end, but it marks the beginning of a much more aggressive stand toward this growing nation. Either of you have a thought of being able to move forward?

Mr. KELLY. I think the very strong reaction that we had to Suu Kyi's detention and Secretary Powell's presence at the ASEAN meeting last week were very much a part of the ASEAN calculus in undertaking this criticism of Burma. This may or may not make some difference. One of the problems that Burma has is that India and China seem to be competing to improve their relationships there, and they are big and they are in the neighborhood and it may be that Than Shwe, the maximum leader of the Burmese junta, believes that if he has got those guys, he doesn't need anybody else. But I think we have had some effect of this situation, but it obviously hasn't been successful yet.

Mr. BLUMENAUER. Thank you. I am hopeful that Administration will vigorously pursue this in any way possible. And I know our Committee is, for what little bit we can do is going to be moving in that direction. I referenced my concern about the lack of reference to the environment. We have, through this vast area, and I appreciate the significance that has been attached economically in terms of global stability. But this is an area where there continues to be illegal logging, damaging practices of deforestation, either purposely or ineptitude, extraordinarily destructive fisheries practices, and economic domestic programs that actually reinforcement of the negative elements. One of my concerns about the agreement with Singapore is that this is a country that has no excuse not to be vigilant in protecting the environment.

They are not poor, as some of these other countries are. They are extraordinarily sophisticated, and as my colleague from California pointed out, it is an extraordinarily efficient centralized powerful government. They could stop illegal trading, for example, of envi-

ronmentally damaging products, illegal forest, logging and what not. Can we have some—I appreciate there is little time here, but I would appreciate any brief comment you may have. But more important to have added to our record what the Administrations' trade and diplomatic policies are going to be toward protecting sustainable environmental practices in this critical area.

Mr. KELLY. Mr. Blumenauer, these are very important concerns. They show up prominently in the consideration of foreign assistance legislation because, in particular, in Southeast Asia, with those countries in which we provide either development assistance or economic support funding invariably, our assistance is in part aimed at improving the environment. In Cambodia, which I visited last week, we, of course, do not provide assistance directly to the government, but we work through NGOs. Other than HIV/AIDS and child health, the largest part of our effort there is aimed at the environment, and in particular, the concerns you raised: Forestry management, whistle-blowing on illegal and inappropriate logging, and wildlife preservation.

There are some unique forms of wildlife in parts of eastern Cambodia, and the mountains of Vietnam that are very much at hazard. We have programs that are working on those concerns. Water and clean water problems are a very serious matter, not only in Cambodia, but elsewhere as well, and we have programs aimed at those. Within the commercial relationship, there are certainly efforts to foster the technology that America has and make it available to Southeast Asian countries to assist them in protecting their environments. Mr. Ives may have something more to add.

Mr. IVES. I would just like to add that in terms of the free trade agreement, it should actually help us in this area. There is a specific chapter in the United States Singapore FTA that addresses the environmental issue. Singapore has made certain commitments, including cooperation on helping us in terms of regional environmental areas. Very recently, the government of Singapore signed with the United States a separate environmental cooperation agreement. And part of that agreement will help us enforce CITES. Singapore is also recently working with us to help Indonesia in terms of its—we recognize its illegal logging practices. So I think the FTA will actually help us work through some of these issues in the environmental field.

Mr. BLUMENAUER. Mr. Chairman, I see my time is expired and I have a markup across the road in the other—another Committee. But I would just say that I am convinced that notwithstanding the amount that we put in aid, that our commercial practices are going to have the greatest impact on environmentally sustainable activities, if it is no longer profitable for people to take short cuts on the environment. They will make progress. And that is one of the things that puts us at a competitive disadvantage in our markets is because people are cutting corners over there deliberately. And I would hope with all due respect that this could be given a more significant role in terms of what are you telling the Committee, what you are sharing with the world and as we push back and I would look forward to having in greater detail how you see the Singaporean agreement advanced environmentally, because that

will be helpful to us as we consider the free trade agreement on the Floor this next month. Thank you very much.

Mr. LEACH. Thank you, sir. Mr. Weller.

Mr. WELLER. Thank you, Mr. Chairman and Secretary Kelly and Ambassador Ives. Appreciate your appearance before our Subcommittee today. I apologize for missing your testimony. I am aware of the statements that you made, particularly in regard to Burma and its impact to the region and our relationships with some of the neighboring countries. You know, with the information that has been shared with me and our Committee over the last several years, particularly recently with the behavior the Burmese junta, particularly in its treatment of ethnic minorities reminds us of Yugoslavia's Milosevic. And the question that I would like to ask of you is that there are several countries that are in contiguous, Mr. Secretary, to Burma, Thailand, Laos, India, others. How have they responded to the Burmese junta? What actions have they taken in response not only to the seizure of the opposition leadership, but also to the treatment of the ethnic minorities, many of whom are being pushed as refugees as they flee to some of these countries? What is the reaction of the government, and has it been appropriate from your perspective?

Mr. KELLY. I don't think, Mr. Weller, that there has been very much action by the contiguous governments. The Thais were, I think, wrong-footed on this. They had been in the process of trying to pacify their border, collaborate or cooperate with Burma, in some ways positive and some ways not, in terms of pacifying minorities that had been moving back and forth across that border. Thailand has somewhat risen to the occasion in joining with ASEAN. They were a party to the ASEAN criticism of Burma. I am not aware of what I would call positive statements that have been made or actions that have been taken by Laos, by Bangladesh, by India, or by China, which are other contiguous states on Burma. So we have not had the degree of support on this issue that I would like.

Mr. WELLER. As a follow-up to that Mr. Ives, Thailand is seen by many as being the next logical candidate in the region for a free trade agreement with the United States. And from your perspective, did the actions of the Thai government have an impact regarding Burma, have an impact on proceeding forward with any FTA discussions.

Mr. IVES. Well at this time we have not made any commitment to proceed to an FTA with Thailand. We are looking at some very specific commitments that they have made to us under our trade investment framework agreement. We are working with them on those specific commercial commitments and any decision is for the future. So we have not made any decision on an FTA with Thailand.

Mr. WELLER. So as status, there is no status other than it is a potential proposed idea that has not yet been initiated, and no decision has been made to initiate it. And Mr. Secretary, on the, now the issue of anti terrorist efforts. You know we have had a long time relationship with the Thai government. How—what has been—how have they been to work with particularly dealing with, you know, groups that have ties to Osama Bin Laden and the al-

Qaeda network. What has been their record, particularly in the last 2 years?

Mr. KELLY. Their record has, in general, been good, and over the last 6 months, it has been excellent to outstanding. There have been serious arrests of terrorists. I think at first, as with some other countries a couple of years ago, the Thais said to themselves, we don't have quarrels with anybody. This is not going on here. The evidence became clear that terrorists were moving through Thailand at least, and that there was some evidence of plots involved. So recently there have been some arrests within the last several months. The private cooperation with us on the war on terrorism has been excellent by the Thais. And in a number of ways, some of which could not be discussed in an open hearing, the government, Royal Government of Thailand has been very helpful. Our Ambassador for counterterrorism, Cofer Black, visited Bangkok last week, and I know that he felt really quite encouraged after the meetings he had and with the results.

Mr. WELLER. Mr. Secretary, there has been, you know, evidence that suggests that narcotics trafficking is used as a source of revenue for global terrorism. And from your perspective in southeast Asia, have we seen evidence of the al-Qaeda and their affiliates in that region using narcotics trafficking as a source of revenue?

Mr. KELLY. I think I would have to add to my response for the record, because I don't know that there is evidence in Southeast Asia. I am not aware of any direct relationships between al-Qaeda, the radical Islamic groups and drug trafficking that remains a very serious problem in southeast Asia.

Mr. WELLER. Thailand in particular, how have they been, you know, from our perspective in pursuing anti narcotics efforts, particularly in trafficking?

Mr. KELLY. The Thais have been significantly better. They have had a huge push, which brought a great deal of criticism of how carefully the judicial process was being used against drug trafficking. The Thais have had a significantly worse problem, less with drugs passing through the country from the golden triangle and out into the world than with huge quantities of methamphetamines, causing very serious problems within Thailand. Thai efforts against methamphetamines have been vigorous and strong, but this, of course, remains a serious problem.

Mr. WELLER. Okay. Thank you, Mr. Secretary. Mr. Ambassador. Thank you for your appearance today.

Mr. Chairman.

Mr. LEACH. Thank you very much. I would like just very briefly to do some follow on questions and then if I could ask each Member to hold it to one question. A member of the panel noted earlier, and I think correctly, that all Administrations have to be careful about rationalizing any decision based on another concern. That is, you can't use a concern for terrorism to justify everything. On the other hand, it strikes me that your boss, Mr. Ives, Mr. Zoellick, is exactly correct, that good trade and good relations can bring people closer together and can serve as a deterrent for more awkward relations between peoples. And so I would like you, representing the United States Trade Representatives Office, to lay forth the case of why

and how it is that trade can be part and parcel of an international strategy to lessen tension in the world.

Mr. IVES. Do I have to do that now? I am sure Ambassador Zoellick could present the case much better than I. But free trade promotes economic development. This is one of the reasons the President went forward with the Enterprise for ASEAN Initiative to encourage those countries, both to integrate together because they can then trade and develop more within themselves, and to—and that, in turn, would help them achieve greater economic development. As Ambassador Zoellick has indicated, poverty doesn't breed terrorism, but clearly, if we can improve the lives of the people in these countries through trade, through economic development, that will improve the overall development situation.

So as Administration goes forward with its—again, in the Asian Pacific region, the enterprise for ASEAN Initiative, we are trying to work with these countries, both bilaterally and multilaterally, to promote trade and economic development which will further their lives and we believe further our lives too. Thank you.

Mr. LEACH. So breaking down fences make good neighbors.

Mr. IVES. That's correct, sir. Thank you.

Mr. KELLY. Could I just add to that, I think we have had excellent cooperation from the Trade Representatives Office and with Ambassador Huntsman, in particular, who has, of course, recently left government. Not long ago, he and I were talking on the telephone when he was in Laos heading for Cambodia. He wanted to be sure that his political message, which noted conditions that were most inappropriate, was strong and was not drowned out by his economic message. I think John Huntsman got that exactly right and I think he had a very helpful visit, not just from the viewpoint of trade policy, but from the viewpoint of human rights and some serious concerns we had there.

Mr. LEACH. Thank you very much, Mr. Kelly.

Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. I think it was a well-taken observation on the part of the Chairman suggesting that free trade does lessen tensions in the world. But out there, there are also some serious concerns about trade relationships. And we talk about a global economy. We talk about fair trade. And always this phrase, "fair trade" also has to be part of free trade.

I think there is a very serious problem as we recognized in the meeting that was held in Seattle. The concerns that were raised by the least developed countries as to whether or not this idea of trading is really going to be more advantageous for the industrialized nations at the expense of least developed countries. Always the question of cheap labor comes into play where countries whose economies are at a much lower standard in grade compared to that of industrialized countries. I think the challenge is where do you find a sense of equity and fairness in the process to suggest that if I am earning 50 cents an hour making Nike shoes in Thailand, and that same shoe ends up at \$125 here in the United States, where do you find equity and balance when you talk about trade in that scenario? Am I being somewhat abstract in my observation?

But I think I would like to ask Mr. Ives, is this not a reality just as well when we talk about trade, there has got to be an answer

of equity because of tremendous imbalance and variance among nations of the world, some of the poorest vs. some of the richest. The richest always take advantage of the poorest because of cheap labor costs. Where do we find fairness in the process?

Mr. IVES. Congressman, I think study after study has shown that those economies, those countries that open up their markets expand trade, promote economic growth much faster than those that close their economies. And that has been true for decades. And I think Assistant Secretary Kelly gave some examples of how some countries in the Asia Pacific region have increased their economic development tremendously. Their workers have gone up the wage scale and improved their living conditions through trade. Having said that, in the Doja development agenda, the development is the middle word of the Doja development agenda. We are very conscious of the need to open markets to trade, particularly for the least developed countries.

And this is one reason why the United States, among other reasons, is focusing on market access, and we are focusing on market access for goods, services and agriculture. And you may have seen a very interesting piece in *The Washington Post* on Sunday how some economists have noted how the European Union common agricultural policy is causing some problems for developing countries. The United States, in its proposals in the WTO negotiations is willing to substantially reduce barriers in agriculture, but we need our trading partners to do the same.

Mr. FALCOMA. Real quickly, Secretary Kelly. It seems that we are beating up on Burma this whole morning. There is movement in the Congress now to pass the legislation to place sanctions against Burma because of the political unrest and the situation there. In your opinion, then, will the Administration support sanctions against Burma because of the given political climate that we are faced with? One of the other ironies of the whole situation is I met with some officials of the Asian countries. Because we don't have a formal diplomatic relationship with Burma, their idea is we need to continue the dialog or some sense of communication with a country like Burma. And even with whatever efforts Secretary Powell may have made in this meeting recently concerning Burma, the fact of the matter is that these Asian countries recognize Burma officially and they continue trade operations with Burma. Do you think sanctions are going to be an effective tool as part of our foreign policy to do this against Burma?

Mr. KELLY. Only time will tell, Congressman, whether the sanctions and restrictions will be effective. We have had many, many economic restrictions on trade and investment with Burma for quite a long time. We are now contemplating essentially all that we could even think of. Whether they will be successful or not is in doubt. We will just have to see.

We do maintain, of course, diplomatic relations. We have a charge d'affaires in Rangoon. Fortunately, we were able to send some people up to the place in the country where that attack on Aung Sun Suu Kyi's caravan took place, and there was plenty of evidence readily in sight that contradicted some of the claims of the junta. And we do maintain a kind of a dialogue, but whether the Burmese foreign ministry is able to even deliver the message inside

their own junta is open to some question. It doesn't seem to get through.

Mr. FALCOMA. Thank you, Mr. Secretary, Mr. Ives. Thank you, Mr. Chairman.

Mr. LEACH. Thank you. The gentleman from California.

Mr. ROHRBACHER. Thank you very much. Let me note that the official report by the State Department on Burma gave credit to Burma for decreasing its heroin production, and I took exception with that when that was presented to us earlier this year. I happened to stop by Vienna and talked to the drug control people, international at drug control, people there and they did confirm that there had been a—there appears to be a certain decrease in the amount of heroin being produced in Burma. Of course what they then added, which I think is significant, Mr. Kelly, and you have added that today as well, if there has been any decrease in the production of heroin in Burma, it has been balanced off by a massive increase in methamphetamine production.

So I am not sure whether or not we should be lauding someone in that particular situation. And one of my colleagues mentioned illegal logging and the rape of natural resources of countries. That's why the freedom index relates to all of these things because if you have a democratic society and you have newspapers and criticism of the government and opposition parties, you don't have the same rape of the natural resources that you do because you have a democratic decision being made as to these mutually-owned assets, whether they are trees or other natural resources.

Burma, of course has sold most of its natural resources or at least permitted many of them to be stolen and sent to China. Someone told me the old Burma road is like—logging trucks are backed up bumper to bumper or have been in the past, which leads me to what I really would like to now ask you about. It seems to me that when we are discussing the freedom index or discussing whether trade is beneficial, we can't just continue to leave an analysis of what's going on in China out of the discussion. China had a trade—we have a trade deficit with China which in 1987 was \$3 billion. Mr. Kelly, what is that trade deficit today? And how about Mr. Ives?

Mr. KELLY. I believe, Mr. Rohrabacher, that the number given was \$103 billion. The number I think that was given by the Chairman, if I am not mistaken was 125 billion of imports to the United States and 22 billion of imports from the United States to China. This is a giant imbalance.

Mr. ROHRBACHER. A giant imbalance, and do you think that is having a positive impact on our economy?

Mr. KELLY. I am not an economist, but China unquestionably provides goods that Americans are happy to buy at lower prices than they might have done before. What is going to be important, though, and this is why we advocated the membership of China in the World Trade Organization, is the ability to start making that balance much more equal. This is a huge producer market. It is also a huge consumer market. And we are aiming to be able to sell a lot more into China and that is going to be a critical part.

Mr. ROHRBACHER. Well, I hear this every year, and I have been hearing this every year since 1987. I mean, I—you know, we

worked in the same Administration together and it was always our intent, and always the intent of the United States Government or the Federal Government, to make sure that we take advantage of the China market and make sure the balance starts going in the other direction.

And as of yet, both Democrat and Republican Administrations have been utter failures in trying to do something about that. Just to let you know how that affects my district, and my district also encompasses by the way, of course, the ports of Los Angeles and Long Beach where most of that trade is coming in. And we have built this great facility so that they can scoot their stuff from Shanghai very easily right into the front yard of American corporations that are trying to produce things, especially small businesses.

Every small businessman, manufacturing businessman that I talk to Mr. Chairman, in the last year, has told—and this is members, you know, maybe 12, 13 separate businessmen that I went to visit, have suggested that they will be out of business. And every one of them said the same thing. The Chinese are copying our product. We have no ability to compete with this. I don't think it is a good idea that America is being neutered by a communist dictatorship. And our manufacturing—our manufacturing capabilities are being cut off and I don't think that it is going to be a good thing for us in the long run. And our people will suffer from this irresponsibility in the future. I would suggest this also.

And let me ask this, Mr. Ives, in China, in terms of this great trade deficit that we have, we also have an investment that our corporations are going in there and actually investing in China. We are the ones building their manufacturing units, which then export goods to us. Does China still have a policy that they have mandatory partnership with Chinese companies that often end up being the people's Liberation Army? Is that still going on?

Mr. IVES. I am sorry congressman. I don't cover China in my area, but we could certainly get a response to that question.

Mr. ROHRABACHER. Yeah. I would—I believe it does, isn't that right, Mr. Kelly?

Mr. KELLY. There are requirements for partnerships but the economic size of China has grown so greatly, and the companies in China have grown, that this is now a less significant issue. But it is still an issue, as you suggest. The Joint Congressional Executive Commission, of which our Chairman has undertaken to be the Chair, recognizes that this is a problem and that it is a unique situation that needs a very careful analysis of where American interests lie.

Mr. ROHRABACHER. It requires not just analysis but action. And we need to study it. You know, we have been studying this \$3 billion to \$103 billion trade deficit for a long, long time. We don't need to study this anymore. We need to act upon it. Just a note. Yes, a lot of our companies, big businesses from the United States going over there setting up manufacturing units ending up as partners, forced partners with the people's liberation Army and what do they do with those resources in the people's liberation Army. They are modernizing their strategic weapons and they are also engaged for example in dominating Burma. If you take a look at the gangsters that run Burma, they are like that with the communist Chinese

and the People's Liberation Army, have their advisors there and in fact the entire Burmese Army has been outfitted with Chinese communist weapons.

There is—this is not good. This is not something that we can ignore and just let the trends continue. If the trends do not reverse, we already are—it has already gone so far in the wrong direction. Mr. Chairman, I would suggest that some day we will reach a threshold and the consequences will be so serious as to wake up the American people. And when they wake up there is going to be a lot of explaining to do.

Mr. LEACH. Mr. Weller.

Mr. WELLER. Thank you, Mr. Chairman. And I'll take my one question in a little bit different direction. But Mr. Secretary, Mr. Ambassador, on the issue of Laos and in your previous comments, you indicated the Administration was advocating that there should be an opportunity for free trade agreement with Laos. And recently, it came across my desk a letter that was circulated by a number of my colleagues in opposition to a free trade agreement with Laos that suggested that Laos had a fairly consistent record of opposing the United States in issues before the United Nations and other world bodies. And I was wondering if you could tell me if that is true.

Is that a long time history? Is that recent? Have you seen a change in their level of support for the United States when it comes down to taking sides?

Mr. KELLY. First of all, Mr. Weller, we are not seeking a free trade agreement with Laos. We are seeking what is called normal trading relations. At the moment, what that means is that any export from Laos, and there are very few of them, are subject to essentially prohibitive tariffs. Essentially, there is no trade between Laos and the United States, so what we are saying is that we need an agreement that establishes a modicum of a beginning kind of trading relationship on which we believe we can build and improve the kind of cooperation.

Now to specifically answer your question, if Laos is voting with us more favorably in the U.N., I haven't noticed it. The U.N. is less polarized. The votes are less predictable than they were in the past, but Laos has generally taken positions that oppose that of the United States. And they did so in the case of Iraq. We are not talking about rewarding them. We are talking about putting Laos on a basis that at least makes it seen as a little bit better than North Korea.

Mr. WELLER. And Mr. Secretary, please accept my apologies for mistating on the FTA vs. NTR. I certainly understand that was normal trade relations that was being pursued with Laos. But just a quick follow-up on that. Where would you rank Laos in the level of support for the United States when it comes to taking a side on issues before the United Nations compared to the other nations that belong to the United Nations?

Mr. KELLY. I just have to guess at that, but I would certainly put them in the lower third. I am not aware, by the way, of any index. I suppose we would have to make one up. The Pacific island states do an awfully great job of supporting us day in day out in the U.N. Other longstanding allies have some major differences with us.

Laos has never been an ally of the United States and it has differences according to what it thinks may be its political advantage. It tends to vote very frequently with Vietnam and China. Both are much more inclined to be helpful than they used to be. But I wouldn't want to exaggerate that.

Mr. WELLER. Thank you Mr. Secretary. I, of course, am a supporter of free trade, and I believe every opportunity that we can to expand trade opportunities and I am one of those who would question why we would lump Laos in with Libya in that handful of countries with which we do not have normal trade relations. But again, when it comes to our dealing with Laotians, we would certainly expect not only improved relations, but ask them to be on our side once in a while if we are going to have improved relationships particularly, in the area of trade and economic growth.

Mr. LEACH. Well, thank you, Mr. Weller. Mr. Faleomavaega has asked to make one quick additional question.

Mr. FALEOMAVAEGA. Mr. Chairman, I apologize, but just one quick question to Secretary Kelly. Recently, the prime minister of Japan had hosted a summit meeting with the island heads of government with the island nations of Oceania, and now it is my understanding some time next month President Chirac is also going to be hosting a summit meeting with the island nations of the Pacific. I was wondering, are we missing something here? We don't seem to be giving much attention to the island nations in terms of their political economic interests. Or is it part of President Chirac's take-off from the situation in Iraq and he wants to place his influence and continue this battle between us and France.

Mr. KELLY. Until you mentioned it, Mr. Faleomavaega, I was not aware that President Chirac was going to have an Asia Pacific summit.

Mr. FALEOMAVAEGA. Well, just the island nations of the Pacific.

Mr. KELLY. The island nations. France, of course, has territories in the Pacific, as you know very well. So I am not sure I could draw any conclusion from that one way or the other. We have had within the Pacific some small improvements in the modalities of how we work with French Polynesia and of how we provide for American citizens services there. But I don't think that represents a policy. We are very anxious to work with the Pacific island states, and I am very happy to cooperate with you, sir, in trying to do that. I know you have an important trip coming up to Tonga and as we discussed, I hope we can be helpful in building better relationship with that country.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. Thank you Mr. Secretary.

Mr. LEACH. Well, thank you very much, Mr. Faleomavaega. And actually, the gentleman from Oceania's question underscores one of the most interesting observations in the middle of the buildup to the Iraqi war was that of the President of France, when he indicated he wanted to be the advocate of the third world. In other words, it was really laying down, I believe a gauntlet that France wanted to replace the United States's leadership. And to ignore smaller countries, which we are not doing at this time, but this theory, if you ignored smaller countries, one could find oneself behind the "8 ball," as the world becomes more competitive politically

and economically. That is one the reasons why I think it is wise that the Administration is proceeding in the careful path it is to open up relations and economic pathways with these countries of the world.

Yet there are obvious challenges to the United States in such a policy. The biggest challenge to the United States would be if certain kinds of economic intertwinings occurred between other countries and other blocs of nations with the United States left out. And that would be a literal economic encirclement of the United States which might be tremendously disadvantageous to our economy.

And so I think that is one of the strongest reasons for moving to intertwine rather than to keep or build further barriers to trade. In any regard, let me thank you all. Mr. Kelly, you are always welcome in this Committee. Mr. Ives, welcome and we appreciate the professional service are you providing. Thank you. The Committee is adjourned.

[Whereupon, at 12:05 p.m., the Subcommittee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE DIANE E. WATSON, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CALIFORNIA

Good morning. I want to thank Chairman Leach and Ranking member Faleomavaega for convening this hearing today to address the issue of U.S. trade and economic policies toward Southeast Asia and Oceania.

As you may know, Asia is the largest regional trade partner for my home state of California. Much higher proportion of Asia trade also flows through California ports than through ports in the rest of the United States. Thus, trade activities with Asian countries are crucial to the California economy and my district.

Since California's export economy is highly concentrated in computers and electronic products—roughly half of all exports are from this sector compared to 15% for the rest of U.S.—I am delighted to see strong intellectual property protection languages that are included in the U.S.-Singapore free trade agreement (FTA). I believe trade agreement could function as a very useful tool in strengthening international intellectual property laws and thus protecting our entertainment and high-tech industries.

I must caution, however, that while the agreement liberalizes market access in the government procurement and the service sector, we must continue our respect and promotion of labor rights and the environment. I look forward to hearing the Hon. James Kelly addressing this issue today.

I also look forward to our panelists' testimony in regards to our Administration's trade policy towards Southeast countries that have a poor human rights record and working conditions. As you know the recent arrest of Nobel Peace laureate Aung San Suu Kyi by the military junta in Burma has prompted Senate action to impose sweeping import sanctions against Burma. Recently the 10-member Association of South East Asian Nations (ASEAN) issued a statement denouncing Kyi's arrest. I hope we can also use this hearing to address the U.S. trade and economic policy toward countries that continue to violate human rights.

I want to thank our panelist for coming today and I look forward to this hearing.

